

February 6, 2004



# Financial Management

DoD Payroll Withholding Data For  
FY 2003  
(D-2004-051)

Department of Defense  
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### **Acronyms**

CSRS	Civil Service Retirement System
DCPS	Defense Civilian Pay System
DFAS	Defense Finance and Accounting Service
FEGLI	Federal Employees Group Life Insurance
FERS	Federal Employees Retirement System
OIG DoD	Office of the Inspector General Department of Defense
OPF	Official Personnel File
OPM	Office of Personnel Management
RITS	Retirement Insurance Transfer System
TSP	Thrift Savings Plan



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
400 ARMY NAVY DRIVE  
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February 6, 2004

MEMORANDUM FOR DISTRIBUTION

SUBJECT: Report on DoD Payroll Withholding Data for FY 2003  
(Report No. D-2004-051)

We are providing this report for information and use. The Army, Navy, and Air Force did not respond to the draft report; however, we considered comments from the Defense Finance and Accounting Service when preparing the final report.

DoD Directive 7650.3 requires that all issues be resolved promptly. The Defense Finance and Accounting Service comments were responsive. As a result of management comments, we revised Recommendation 1. to the Director, Defense Finance and Accounting Service. Comments on the draft of this report conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, no additional comments are required.

We appreciate the courtesies extended to the staff. Questions should be directed to Mr. David F. Vincent at (703) 604-9109 (DSN 664-9109) or Mr. Thomas J. Winter at (703) 604-9134 (DSN 664-9134). See Appendix C for the report distribution. The team members are listed on the inside back cover.

Paul J. Granetto, CPA  
Director  
Defense Financial Auditing  
Service

cc: KPMG

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## Office of the Inspector General of the Department of Defense

**Report No. D-2004-051**  
(Project No. D2003FH-0059)

**February 6, 2004**

### **DoD Payroll Withholding Data for FY 2003**

#### **Executive Summary**

**Who Should Read This Report and Why?** This report is intended for use by three officials at the Office of Personnel Management: the Inspector General, the Chief Financial Officer, and the Associate Director for Retirement and Insurance. The report discusses the results of agreed-upon audit procedures developed by the Office of Personnel Management.

**Background.** Office of Management and Budget Bulletin No.01-02, October 16, 2000, requires all Federal agencies to review their civilian employee retirement, health benefits, and life insurance payroll withholdings. The Inspector General, Chief Financial Officer, and Associate Director for Retirement and Insurance of the Office of Personnel Management developed specific agreed-upon procedures to review civilian employees' withholdings and are, therefore, responsible for the adequacy of the agreed-upon procedures. We applied the agreed-upon procedures in accordance with the standards established by the American Institute of Certified Public Accountants.

**Results.** The payroll withholding amounts and total payroll amounts that the Defense Finance and Accounting Service reported to the Office of Personnel Management did not exactly match the supporting detail Defense Finance and Accounting Service provided for our analysis. This is a repeat issue from prior Inspector General of the Department of Defense audit reports. The Defense Finance and Accounting Service is developing computer storage to resolve the issue. For details of the analysis, see the Independent Auditor's Report and Attachment.

**Withholding Data Discrepancies.** We selected a sample of 236 employees and compared their payroll withholdings to authorizations in their official personnel files. The comparison revealed 34 discrepancies (percentages apply to the sample of 236 not to the whole populations):

- 8 gross pay discrepancies (3.39 percent),
- 9 life insurance withholding discrepancies (3.81 percent),
- 4 health benefits withholding discrepancies (1.69 percent),
- 10 Thrift Savings Plan Discrepancies (4.24 percent), and
- 3 Federal Employees Retirement System withholding discrepancies (1.27 percent).

**Conclusion.** We performed the agreed-upon procedures specifically pertaining to payroll. We were not engaged to and did not perform an audit with the objective of expressing an opinion on the withholdings and contributions for health benefits, life insurance, retirement, and on the employee headcount of DoD. Therefore, we are not expressing an opinion. However, we performed additional procedures based on generally accepted government auditing standards that we considered necessary to report to the Office of Personnel Management.

We compared Form 592s, used for Payroll Certification and Summary, with the total payroll amounts in the payroll files. We found significant discrepancies (see the Independent Auditors Report). DFAS personnel explained that errors occurred when the Form 592s were downloaded twice, causing the computer to double the amounts in the reports. In addition, DFAS personnel stated that the reports were not reconciled to payroll before being reported to DFAS Cleveland and before being presented to the Director, Civilian Payroll Operations for signature. Defense Finance and Accounting Service should reconcile the Form 592s to payroll prior to certifying that the payroll is correct and proper for payment, and should download the Form 592s only once for payroll-certifying officer's signature.

In addition, the Defense Finance and Accounting Service and supporting DoD organizations could improve management controls over the accuracy of the payroll amounts withheld and remitted to the Office of Personnel Management. The withholding amounts we calculated while performing the agreed-upon procedures differed from the withholding amounts presented in Defense Finance and Accounting Service reports. The differences for retirement and life insurance were less than the reporting threshold criteria of one percent established in the agreed-upon procedures. However, some of the differences for health withholding exceeded the reporting threshold criteria. Defense Finance and Accounting Service personnel said that the differences for health benefits withholding were due to payments for indebtedness for health benefits that they did not include in the data sent to us.

**Management Comments.** Defense Finance and Accounting Service partially concurred that the Form 592s should be reconciled to payroll prior to certifying that the payroll is correct and proper for payment, and suggested that a phrase in the recommendation about fund availability be deleted because fund availability is the responsibility of the resource managers. The Defense Finance and Accounting Service comments are responsive. We revised our recommendation by deleting a phrase about fund availability. Defense Finance and Accounting Service concurred that the Form 592s should be downloaded only once for the payroll-certifying officer's signature. The Defense Finance and Accounting Service comments are responsive. Therefore, we require no additional comments. See the Overview for a discussion of management comments and the Management Comments section for the complete text of the comments.

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## Independent Auditor's Report

### Overview

We have performed the employee payroll and withholding data procedures agreed upon by Officials in the Office of Personnel Management (OPM), the Inspector General, the Chief Financial Officer, and the Associate Director for Retirement and Insurance. The sufficiency of these procedures is solely the responsibility of the three officials agreeing to them. Therefore, we make no representation regarding the sufficiency of the procedures described in the attachment. We applied the procedures to the employee withholdings and employer contributions reported on the Report of Withholdings and Contributions for Health Benefits, Life Insurance, and Retirement for the payroll periods ended October 5, 2002; February 22, 2003; March 8, 2003; and March 22, 2003. We also applied the agreed-upon procedures to the Supplemental Semiannual Headcount Report as of March 8, 2003. We applied these agreed-upon procedures in accordance with standards established by the American Institute of Certified Public Accountants.

**Comparison of Amounts Withheld and Remittance to OPM.** The Defense Finance and Accounting Service (DFAS) and supporting DoD organizations could improve management controls over the accuracy of the payroll amounts withheld and remitted to OPM. The amounts determined by performing the agreed-upon procedures differed from the amounts presented in the DFAS reports, and the differences were greater than the threshold criteria prescribed in the agreed-upon procedures.

**Payroll File Totals.** We totaled the payroll files that included about 621,677 employees within a given pay period, with a total gross payroll of about \$5.3 billion for the 4 pay periods we reviewed. The payroll withholding amounts DFAS reported to OPM exceeded the footings (totals) of the DFAS database by \$2.243 million, for an overall error rate of 0.650 percent. This is not an improvement from FY 2002, when the payroll amounts DFAS reported to OPM exceeded the footings of the DFAS database by \$0.533 million, for an overall error rate of 0.159 percent. The differences found this year are greater than last year, although not material with respect to the DoD financial statements. However, considering the sensitivity of payroll, the differences, which range as high as 3.11 percent for health withholdings on one payroll file for one pay period, represent a material management control weakness in the preparation and reporting of DoD payroll. Management should address this material weakness.

The differences for retirement and life insurance were less than the reporting threshold criteria of one percent established in the agreed-upon procedures. However, 9 of the discrepancies (out of 16 comparisons) for health withholding exceeded the reporting threshold criteria. DFAS personnel stated that the differences for health, which were 1.64 percent over all, were due to payments for indebtedness for health benefits not included in the data sent for our analysis. DFAS maintains a database that can be retroactively adjusted, and the adjustments may create discrepancies between reported and adjusted amounts.



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**Payroll Certification and Summary.** The total of the gross payroll amounts in the payroll files was \$5.303 billion. However, the total of the amounts on the Form 592s originally provided by DFAS, and used for Payroll Certification and Summary, was \$5.691 billion. Comparison of the four payroll files for four pay periods showed that two of the Form 592s exceeded payroll file 500 (Pensacola) by \$0.189 billion and \$0.281 billion (approximately 100 percent each); six of the Form 592s exceeded the payroll file by a multiple of \$100,000 and these accounted for a total of \$900,000; three of the Form 592s were less than the payroll files by a total of \$4.132 million; and five of the Form 592s matched the payroll files exactly. DFAS personnel explained that the 100 percent differences were due to the Form 592s being downloaded twice for the Director's signature. DFAS personnel stated that DFAS Pensacola did not complete reconciling these Form 592s before reporting the amounts to DFAS Cleveland, and before the Payroll Certifying Officer signed them. DFAS personnel also stated that the 6 differences of multiples of \$100,000 were due to data truncation in the payroll file data provided for our analysis. DFAS personnel added that the other three differences should have been supplemental Form 592s, and this accounted for the \$4.132 million by which Form 592s differed from payroll files. DFAS provided corrected Form 592s for the differences of 100 percent totaling \$0.47 billion.

**Comparison of Payroll System Data to Official Personnel Files.** We compared a sample of 236 employees from the 4 payroll data files to documentary support for amounts paid and withheld as shown in Official Personnel Files (OPFs). This comparison resulted in 34 discrepancies (percentages apply to the sample of 236, not the whole population) between payroll system data and OPFs:

- 8 gross pay discrepancies (3.39%),
- 9 life insurance withholding discrepancies (3.81%),
- 4 health insurance withholding discrepancies (1.69%),
- 10 Thrift Savings Plan (TSP) discrepancies (4.24%), and
- 3 Federal Employees Retirement System withholding discrepancies (1.27%).

**Acceptance of Personnel Documents from Databases.** During our review of the 236 employee sample files, we identified 45 OPFs with potential discrepancies. We provided the Army, Navy, Air Force, and Defense agencies with the names, social security numbers, and the nature of the potential discrepancies for each of the 45 files. The Army, Navy, Air Force, and Defense agencies later provided us with forms printed from personnel file databases that explained differences between data in 40 of the OPFs and data in the Defense Civilian Pay System (DCPS). We accepted personnel documents generated from personnel file databases that completely explained differences between data in 24 of the OPFs and data in the DCPS. However, data in sixteen of the 40 OPFs still had unresolved inconsistencies with data in the DCPS. After our initial review, we relied on the documents printed by the Military Departments and Defense agencies for our use. Therefore, we reclassified 24 OPFs with explained inconsistencies to "samples that were corrected at a later date." Of the 24 files we reclassified as correct, 11 were from the Air Force, 10 were from the Army, 2 were from Defense agencies, and 1 was from the Navy. The Army, Navy,

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Air Force, and Defense agencies were unable to clarify 16 out of 40 OPFs with potential discrepancies despite additional documentation. The Army did not provide additional data needed for five other OPFs. The 21 OPFs with discrepancies remaining are included in the total of 34 differences discussed in the paragraph “Comparison of Payroll System Data to Official Personnel Files” on page 2.

**Causes of Discrepancies.** Inconsistencies between the pay indicated on the SF-50 in the OPF and data in the pay system in 8 of the sampled files caused 16 of the errors. Inconsistencies between TSP-1 withholding in the pay system and amounts indicated on TSP-1 forms account for another six discrepancies. Another five errors were caused by life insurance calculation errors. In two instances waivers of life insurance were not documented in the personnel files. Two other errors were non-monetary—personnel staff failed to sign forms for TSP and health withholding. Two errors were caused by inconsistency between health elections in the OPFs and health deduction data in the pay system. Another error was caused by lack of support in the OPF (no health election) for health deduction data in the pay system. We discuss the causes of the discrepancies in the attachment to this report.

**Calculations Required.** The agreed-upon procedures require us to compare the headcount of employees using payroll data files with the headcount in the Supplemental Semiannual Headcount Report. Our headcounts of employees using payroll data files differed from the Supplemental Semiannual Headcount Reports by less than 1 percent—within the 2 percent reporting threshold allowed in the agreed-upon procedures.

**Life Insurance.** Our recalculation of basic life insurance from the payroll data files supported the amounts reported to OPM. The calculated amount of \$21.401 million was \$0.436 million different from the \$20.965 million DFAS reported to OPM. The difference between the amount we calculated and the amount DFAS reported to OPM (2 percent) did not exceed the 5 percent reporting threshold.

**Health Insurance.** Our recalculations of health insurance withholdings from the payroll data files supported the amounts DFAS reported to OPM. The amounts we calculated from the payroll data files varied from the amounts DFAS reported to OPM by percentages between .06 and 1.2 percent in total, including employee withholding and agency contributions for each payroll file. This was much lower than the agreed-upon procedures reporting threshold of 5 percent for health insurance variances.

**Comparison of Amounts Transferred.** We compared DFAS and OPM documentation for the total dollar amounts transferred for the payroll periods sampled. We found that all the amounts reported by the DCPS were the same as the amounts reported by the OPM Retirement and Insurance Transfer System (RITS). This is an improvement from last year, when not all of the amounts reported by the DCPS were the same as the amounts in the RITS system.

We performed the agreed-upon procedures specifically pertaining to payroll. We were not engaged to, and did not, perform an audit with the objective of

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expressing an opinion on the withholdings and contributions for health benefits, life insurance, retirement, and on the employee headcount of DoD. Therefore, we are not expressing an opinion. However, we performed additional procedures based on generally accepted government auditing standards that we determined necessary to evaluate the integrity of the data.

This report is intended solely for use by the Inspector General, the Chief Financial Officer, and the Associate Director for Retirement and Insurance, OPM. This report is prepared in the format directed by Office of Management and Budget Bulletin No. 01-02, October 16, 2000, to address the results of the agreed-upon procedures. Accordingly, this report should not be used by those who have not agreed to the procedures and have not taken responsibility for the sufficiency of the procedures for their purposes. In FY2002, OMB guidance added an additional requirement that we obtain management comments on this report. The payroll files we analyzed are identified as 100 (Denver), 500 (Pensacola), 600 (Charleston), and 800 (Denver). Appendix A discusses the scope and methodology used in accomplishing the agreed-upon procedures.

## **Recommendations, Management Comments, and Audit Response**

**Revised Recommendation.** As a result of management comments, we revised Recommendation 1. by deleting the phrase “that sufficient funds are available to cover the gross appropriation charge.”

**We recommend that the Director, Defense Finance and Accounting Service:**

**1. Reconcile amounts reported on Form 592s, Payroll Certification and Summary, to total payroll before certifying that the payroll is correct and proper for payment.**

**Management Comments.** The Director, Military and Civilian Pay Services partially concurred. Defense Finance and Accounting Service concurred with reconciling the total payroll to the amounts reported on the Form 592s, Payroll Certification and Summary, before certifying that the payroll is correct and proper for payment. Defense Finance and Accounting Service is standardizing procedures to comply. However, Defense Finance and Accounting Service nonconcurred with the statement “that sufficient funds are available to cover the gross appropriation charge.” The DoD Financial Management Regulation volume 5, chapter 33, clearly states that the payroll certifying officer is not required to certify that sufficient funds are available to cover the gross appropriation charges as reflected on the Payroll for Personal Services – Payroll Certification and Summary.

**Audit Response.** The management comments are responsive. We modified the recommendation by removing the phrase “that sufficient funds are available to cover the gross appropriation charge.”

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**2. Download Form 592s only once for the signature of the payroll certifying officer.**

**Management Comments.** The Director, Military and Civilian Pay Services concurred. DFAS is updating procedures to prevent recurrence.

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## Agreed-Upon Procedures and Associated Findings

This attachment contains the OPM agreed-upon procedures, the auditor actions, and the results of accomplishing those procedures.

**Procedure.** Obtain the Agency Payroll Office's March Semiannual Headcount Report submitted to OPM and a summary of Retirement Insurance Transfer System (RITS) submissions for the current fiscal year. For retirement, health benefits, and life insurance, select any three RITS submissions for the current fiscal year, one of which coincides with the March Semiannual Headcount Report. Obtain Payroll information for the periods covered by the RITS submissions selected.

1. Compare RITS submissions data with payroll information by performing the following procedures:

1.a. Recalculate the mathematical accuracy of the payroll information. For cross-servicing agencies, if the internal controls are the same for all agencies serviced, it is only necessary to perform this procedure for one agency.

**Auditor Action.** DFAS extracted all four of the payroll data files from the payroll history database and sent them to us by compact disc from its Pensacola, Florida, operating location. We totaled the 16 payroll data files (4 payroll files for 4 pay periods) with about \$5.3 billion in total pay and about 621,677 employees in each payroll period. We totaled the life insurance withholdings, health insurance withholdings, CSRS withholdings, and FERS withholdings. The total withholding amounts we calculated using data DFAS provided were \$47.1 million for life insurance, \$142.6 million for health insurance, \$132.1 million for CSRS, and \$23.1 million for FERS.

**Procedure.** 1.b. Recalculate the mathematical accuracy of each RITS submission for the payroll information selected in step 1.a.

**Auditor Action.** We recalculated the mathematical accuracy of each RITS submission for the payroll information for the payroll periods ended October 5, 2002; February 22, 2003; March 8, 2003; and March 22, 2003. OPM provided copies of the RITS submissions that we used for recalculation of the mathematical accuracy.

**Procedure.** 1.c. Compare the employee withholding information shown on the payroll information obtained in step 1.a. for retirement, health benefits, and life insurance (as adjusted for reconciling items) to the related amounts shown on the RITS submission for the corresponding period.

**Auditor Action.** We compared the employee withholding totals to the related amounts shown on the RITS submission for retirement, health benefits, and life insurance, as evidenced by a Form 2812 OPM produced from the RITS database. The payroll data file totals for life insurance and Federal Employees Retirement System (FERS) were nearly equal to the related amounts shown on the RITS submission for the corresponding period (only .01 percent different). The payroll data file totals for Civil Service Retirement System (CSRS) were also nearly

equal to the related amounts shown on the RITS submission for the corresponding period (only .07 percent different). The payroll data file totals for health benefits did not equal the amounts reported to OPM in the RITS. The health benefit amounts reported in the RITS (\$144,904,736) exceeded the payroll data file totals for health benefits (\$142,568,558) by \$2,336,178, or 1.64 percent. The total of differences, percentage of differences, and high/low percentage of differences of individual payroll data files are shown in Table 1.

<b>Table 1. Differences Between Payroll Data Files and RITS Data Submissions</b>				
Type of Withholding	Reported to OPM in RITS (millions)	Total of Differences	Percent Difference	High/Low Percent
Life	\$ 47,112,943	3,285	0.01	0.08/0.00
Health	144,904,736	-2,336,178	1.64	3.11/0.64
CSRS	131,972,830	88,098	0.07	0.10/0.05
FERS	23,092,987	2,144	0.01	0.11/0.00

DFAS provided us with an electronic extract from its database. The differences found this year are greater than last year, but still are not material with respect to the DoD financial statements. However, the differences represent a significant management control weakness, considering the sensitivity of payroll. The total percent difference of 1.64 percent for health exceeded the reporting threshold of one percent. Nine individual comparisons for payroll files, by pay period, for health benefits were higher than the reporting threshold, one as high as 3.11 percent. DFAS explained that the DCPS data sent by disc did not include payments for indebtedness for health benefits.

**Procedure.** 2.a. Randomly select a total of 25 individuals who were on the payroll system for all 3 of the RITS submissions selected and meet all the following criteria:

- covered by the CSRS or the FERS,
- enrolled in the Federal Employees Health Benefits Program,
- covered by Basic Life Insurance, and
- covered by at least one Federal Employees Group Life Insurance (FEGLI) optional coverage (Option A, B, or C).

**Auditor Action.** We randomly selected 25 individuals from each of 4 payroll data files in DoD with more than 30,000 employees who were enrolled in Federal retirement, health benefits, and life insurance programs.

**Procedure.** 2.b. Obtain the following documents, either in electronic or hard copy format, from the OPF for each individual selected in step 2.a. Hard copies can be originals or certified copies.

- all Notifications of Personnel Actions (SF-50) covering the pay periods in the RITS submissions chosen,

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- the Health Benefit Registration Form (SF-2809) covering the pay periods in the RITS submissions chosen (note: a new SF-2809 is needed only if an employee is changing health benefit plans; therefore, the form could be many years old), and
  - the Life Insurance Election Form (SF-2817) covering the pay periods in the RITS submission chosen (note: a new SF-2817 is needed only if an employee is changing life insurance coverage; therefore, the form could be many years old).

**Auditor Action.** We obtained Notifications of Personnel Actions (SF-50s), Health Benefit Registration Forms (SF-2809s), and Life Insurance Election Forms (SF-2817s) covering the pay periods in the RITS submission chosen.

**Procedure.** 2.c. Via the agency personnel office, request a report from Employee Express for any health benefit transactions in that system for the individuals selected in step 2.a. Compare the date of transaction with the date on the certified copy of the SF-2809 requested in step 2.b. Confirm that the health benefit information to be used in step 2.g. covers the pay periods in the RITS submissions chosen.

**Auditor Action.** We requested copies from the agency personnel office of any automated health benefits elections (SF-2809s) that could explain differences between OPFs and DCPS. The Army provided copies of personnel documents from the Army Benefits Center, and we directly accessed the Personnel Automated Records Information System for Air Force personnel documents.

**Procedure.** 2.d. Compare the base salary used for payroll purposes and upon which withholdings and contributions generally are based with the base salary reflected on the employee's SF-50. Report any differences.

**Auditor Action.** We compared the base salary used for payroll purposes with the base salary reflected on the employees' SF-50s. Out of 236 files we sampled, the SF-50s of 8 employees did not support the base salaries used for payroll purposes.

**Procedure.** 2.e. For Retirement, compare the plan code on the employees' SF-50s to the plan codes used in the payroll system. Report any differences.

**Auditor Action.** We compared the plan codes on the employees' SF-50s to the plan codes used in the payroll system. We did not note any differences between the retirement plan codes on the employees' SF-50s and the retirement plan codes used in the payroll system.

**Procedure.** 2.f. Calculate the retirement amount to be withheld and contributed for the plan code from the employees' SF-50s, based upon the official withholding and contribution rates required by law. Compare the actual amounts withheld and contributed. Report any differences.

**Auditor Action.** We calculated the retirement amount to be withheld and contributed for the plan codes from the employees' SF-50s, based on the official withholding and contribution rates required. We compared the retirement

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amounts we calculated to actual amounts withheld and contributed. We found three differences between the FERS retirement amounts withheld, and the amounts we determined should have been withheld. Two FERS differences (\$.47 and \$.06) were due to the pay system not being changed for updated SF-50s. The other FERS error (\$2.38) was due to a missing SF-50, so the OPF did not support the amount of the withholding.

**Procedure.** 2.g. For Health Benefits, compare the employee withholdings and agency contributions with the official subscription rates issued by OPM for the plan and option elected by the employees, as documented by Health Benefits Registration Forms (SF-2809) in the employees' OPFs or Employee Express. Report any differences.

**Auditor Action.** We obtained the official subscription rates for Health Benefits issued by OPM for all plans and options available to Federal employees. We compared the employee withholdings and agency contributions with the official subscription rates issued by OPM for the plans and options elected by the employees, as documented by Health Benefits Registration Forms (SF-2809s) in the employees' OPFs. We found four health errors. For one of the errors, the health plan code on the SF-2809 in the OPF did not match with the health plan code in DCPS. The amount in error was \$13.55 per pay period. Another error (\$94.83) occurred because health benefit subscription payment was withheld; however the employee's OPF did not contain an SF-2809 electing a health plan. The third health withholding error had a completed waiver of health benefits in the OPF, but \$94.83 was still being withheld in the DCPS. The final health error was a personnel issue; the personnel office did not sign the health benefit election form. This error was a non-monetary error. The four health errors were the result of two missing documents, one communication error, and one personnel error.

**Procedure.** 2.h. For life insurance, confirm that Basic Life Insurance was elected by the employee, as documented by a Life Insurance Election Form (SF-2817), in his/her OPF. Report any differences.

**Auditor Action.** We reviewed evidence for Life Insurance election by reviewing Life Insurance Election Forms (SF-2817s) and SF-50s. Two of the OPFs had missing Life Insurance Election Forms. However, if a civilian employee in the DoD does not waive life insurance or elect a life insurance option, they are automatically treated as electing basic life insurance coverage. This treatment is consistent with the U.S. Office of Personnel Management Federal Employees' Group Life Insurance Program (FEGLI) Handbook as shown on the OPM website. The Handbook states "As a Federal employee, you automatically have Basic insurance (unless you are in a category of employees specifically excluded by law or regulation), unless you waive it on the Life Insurance Election Form (SF-2817).

**Procedure.** 2.i. Calculate the withholding and contribution amounts for basic life insurance using the following:

For employee withholdings: Round the employee's annual base salary to the nearest thousand dollars and add \$2,000. Divide this total by 1,000 and multiply



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by \$0.155 (for Agency Payroll Offices with biweekly pay periods) or \$0.3358 (for Agency Payroll Offices with monthly pay periods).

For agency contributions: Divide the employee withholdings calculated above by two.

**Auditor Action.** We calculated the withholding and contribution amounts for basic life insurance by rounding the employee's annual base salary to the nearest thousand dollars and adding \$2,000. For Federal Wage System employees we added environmental differential to the base salary in determining wages eligible for life insurance. Two of the sample items with 'basic only' elected had calculation errors in basic life insurance. Both errors were caused by differences in gross pay, which were communication errors. The amounts in error were \$0.16 and \$1.24.

**Procedure.** 2.j. Also, for Life Insurance, compare optional coverage elected as documented by an SF-2817 in the employee's OPF with optional coverage documented in the payroll system. Report any differences.

**Auditor Action.** We obtained SF-2817 documents directly from employees' OPFs and electronic personnel data files. We obtained life insurance optional coverage data from DCPS. We compared optional life insurance coverage elected as documented on the SF-2817s with optional life insurance coverage as recorded in the DCPS. We identified two instances where DCPS had not recorded optional life insurance coverage for employees who had elected optional life insurance coverage. This led to errors of \$26.99 and \$5.74. In both cases the payroll system withheld for basic life insurance although the documents in the OPF showed election of optional coverage.

**Procedure.** 2.k. Calculate the withholding amounts for optional life insurance using the following:

For Option A: Determine the employees' age group using the age groups provided for Option A in the FEGLI Program Booklet. The withholding amount is the rate listed in the FEGLI Program Booklet for that age group. Compare to amount withheld. Report any differences.

For Option B: Inspect the SF-2817 to determine the number of multiples chosen for Option B. Determine the employee's age group using the age groups provided for Option B in the FEGLI Program Booklet. Round the employee's annual rate of basic pay up to the next 1,000, divide by 1,000, and multiply by the rate for the age group. Multiply this amount by the number of multiples chosen. Compare to amount withheld. Report any differences.

For Option C: Inspect the SF-2817 to determine the number of multiples chosen for Option C. Determine the employee's age group using the age groups provided for Option C in the FEGLI Program Booklet. Multiply the rate for the age group by the number of

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multiples chosen. Compare to the amount withheld. Report any differences.

**Auditor Action.** We calculated the amounts for optional life insurance. In addition to the errors noted under 2.h., 2.i., and 2.j., we identified three more optional life insurance errors. These errors were for \$0.31, \$.35, and \$1.82. The error for \$.35 was due to the improper inclusion of Sunday premium in FEGLI pay base. The \$1.82 error was due to life insurance calculation error and the \$.31 error was a systematic error (last hour in pay status not selected by timekeeper to include environmental pay in the FEGLI pay base). In total we identified nine life insurance errors in all categories.

**Procedure.** 3. Randomly select a total of 10 employees who have no health benefits withholdings from the payroll information corresponding to the 3 RITS submissions selected for testing.

Request SF-2809s covering the pay periods in the RITS submissions chosen, either in electronic or hard copy format, from the selected employees' OPFs. Hard copies can be originals or certified copies. Via the agency personnel office, request a report from Employee Express for any health benefit transactions in that system for the individuals selected. Inspect the documentation to determine that health benefit coverage was not elected. This can be determined in the following ways:

- absence of an SF-2809 in the OPF and no election of coverage made through Employee Express,
- an SF-2809 in the OPF with Section E checked (indicating cancellation of coverage) and no later election of coverage through Employee Express, or
- cancellation of coverage through Employee Express and no later election of coverage with an SF-2809.

Report any exceptions.

**Auditor Action.** We randomly selected ten employees per payroll data file who had no health benefit withholdings from the payroll information corresponding to the RITS submissions selected for testing. We reviewed the OPFs and electronic personnel databases for SF-2809s. We inspected the documentation to determine if the employee elected health benefit coverage. We found no indication of election of coverage either in OPFs or in electronic files for employees who had no health benefit withholding.

**Procedure.** 4. Randomly select a total of ten employees who have no life insurance withholdings from the payroll information corresponding to the three RITS submissions selected for testing. Request the SF-2817s covering the pay periods in the RITS submissions chosen, either in electronic or hard copy format, from the selected employees' OPFs. Hard copies can be originals or certified copies. Inspect the SF-2817 to determine that the employee waived or canceled Basic Life Insurance coverage. Report any exceptions.

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**Auditor Action.** We randomly selected ten employees per payroll data file who had no life insurance withholdings according to the DCPS corresponding to the three RITS submissions selected for testing. We requested, obtained, and reviewed the SF-2817s covering the pay periods in the RITS submissions chosen. We inspected the SF-2817s in all instances when the coverage was waived. We did not note any exceptions.

**Procedure.** 5. Recalculate the headcount reflected on the Semiannual Headcount Report selected for testing above, as follows:

5.a. Obtain existing payroll information supporting the selected Supplemental Semiannual Headcount Report selected for testing above, as follows:

- Benefit category (see Semiannual Headcount Report),
- Dollar amount of withholdings and contributions,
- Number enrolled (deductions made/no deductions),
- Central personnel data file code, and
- Aggregate base salary.

5.b. Recalculate the Headcount reflected on the Semiannual Headcount Report. If an electronic file is not available, a suggested method of recalculating the headcount is as follows: (1) estimate the number of employees per payroll register page by counting the employees listed on several pages, (2) count the number of pages in the payroll register, and (3) multiply the number of employees per page by the number of pages, or count (using a computer audit routine) the number of employees on the payroll data file for the period.

5.c. Compare the results of payroll information from step 5.a. with the calculated headcount from step 5.b. to information shown on the Semiannual Headcount Report.

5.d. Report any differences (e.g., gross rather than net) greater than two percent between the headcount reporting on the agency's Semiannual Headcount Report and payroll information from step 5.a. and the calculated headcount from step 5.b.

**Auditor Action.** We obtained the DFAS supplemental Semiannual Headcount Reports (see Table 2) for the pay periods ended March 8, 2003, for Payroll Offices 100, 500, and 600 and February 22, 2003, for Payroll Office 800. We compared those headcount reports to the payroll data files from DFAS-Pensacola for the same period.

**Table 2. Comparison of Employee Headcounts**

Payroll Data File	Report Date	Employee Count DFAS Payroll Data Files	Employee Headcount Report	Difference
97380100	03/08/2003	160,783	160,783	0
97380500	03/08/2003	91,351	91,352	(1)
97380600	03/08/2003	152,734	152,734	0
97380800	02/22/2003	<u>216,809</u>	<u>215,972</u>	<u>837</u>
<b>Totals</b>		<b>621,677</b>	<b>620,841</b>	<b>836</b>

The counts in the payroll data files differed from the headcount reports by 836 employees, which is under the reporting threshold of 2 percent.

**Procedure.** 6. Calculate employer and employee contributions for retirement, health benefits, and life insurance.

6.a. Calculate retirement withholdings and contributions for the four pay periods selected.

6.a.i. Multiply the CSRS and FERS payroll base by the withholding and employer contribution rates required by law.

6.a.ii. Compare the calculated totals with related amounts shown on the RITS submissions. Report any variances (e.g., gross rather than net) between the calculated amounts and the amounts reported on the RITS submissions greater than 5 percent of the amounts on the RITS submission.

**Auditor Action.** We calculated the total CSRS and FERS retirement employee withholdings and employer contributions for the pay periods ended March 8, 2003, for the three payroll entities 100, 500, and 600; February 22, 2003, for the one payroll entity 800. Employee withholding rates for CSRS and FERS were 7.00 percent and 0.8 percent respectively. Employer contribution rates for CSRS and FERS were 7.0 percent and 10.7 percent respectively. The differences between the calculated total of CSRS and FERS employee retirement withholdings and employer contributions and the related amounts shown on the RITS submission did not exceed the agreed upon threshold of 5 percent for any of the 4 payroll data files. Differences for CSRS and FERS employee withholdings varied between 0.09 percent and 0.14 percent; and 0.01 percent and 0.03 percent, respectively, as shown in Table 3. Differences for CSRS and FERS employer contributions varied between 0.00 percent to 0.01 percent, and 0.00 percent to 0.50 percent, respectively, as shown in Table 4.

**Table 3. Comparison Between CSRS and FERS Employee Withholding As Reported by DFAS and RITS Information**

Data	RITS CSRS Calculated Employee <u>Withholding</u>	CSRS per DFAS Employee <u>Withholding</u>	Percent <u>Difference</u>	RITS FERS Calculated Employee <u>Withholding</u>	FERS Per DFAS Employee <u>Withholding</u>	Percent <u>Difference</u>
File						
100	7,284,818	7,294,146	-0.13%	1,146,991	1,147,133	-0.01%
500	5,051,514	5,057,801	-0.12%	776,866	777,101	-0.03%
600	9,194,654	9,202,678	-0.09%	1,496,132	1,496,040	0.01%
800	11,367,395	11,383,197	-0.14%	1,559,474	1,559,468	0.00%
<b>Totals</b>	<b>32,898,382</b>	<b>32,937,822</b>	<b>-0.12%</b>	<b>4,979,463</b>	<b>4,979,741</b>	<b>-0.01%</b>

**Table 4. Comparison Between CSRS and FERS Employer Contribution As Reported by DFAS and RITS Information**

Data	RITS CSRS Calculated Employer <u>Contribution</u>	CSRS Per DFAS Employer <u>Contribution</u>	Percent <u>Difference</u>	RITS FERS Calculated Employer <u>Contribution</u>	FERS Per DFAS Employer <u>Contribution</u>	Percent <u>Difference</u>
File						
100	7,649,455	7,649,516	0.00%	15,341,008	15,339,960	0.01%
500	5,388,849	5,388,397	0.01%	10,390,580	10,390,582	0.00%
600	9,673,549	9,673,956	0.00%	20,010,768	20,111,624	-0.50%
800	12,038,543	12,037,788	0.01%	20,857,967	20,857,951	0.00%
<b>Totals</b>	<b>34,750,396</b>	<b>34,749,657</b>	<b>0.00%</b>	<b>66,600,324</b>	<b>66,700,117</b>	<b>-0.15%</b>

**Procedure.** 6.b. Calculate employee withholdings and employer contributions for health benefits for the three pay periods selected.

**Auditor Action.** We obtained the number of employees enrolled in each health insurance plan for each payroll data file from data provided by DFAS as RITS submissions. We obtained the official subscription rates for health benefits issued by OPM for all plans and options available to Federal employees from the OPM website. We extended and added totals and compared the results with the health insurance withholdings and contribution amounts shown on the OPM Collection and Deposit System Standard Form 2812. All of the Payroll Offices had variances below the 5 percent reporting threshold.

**Procedure.** 6.c. Calculate the Basic Life Insurance employee withholdings and employer contributions for the three pay periods selected.

**Auditor Action.** We totaled the amount of gross pay eligible for basic life insurance for the employees in each payroll file. We divided this sum by 80 and multiplied by 2,087 to determine annual gross earnings of employees electing basic life insurance coverage. We used data from DCPS to obtain a count of the number of employees electing basic life insurance for each payroll file. We multiplied 2,000 times the number of employees electing basic life and added the result to gross pay eligible for basic life insurance. We multiplied the total times

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15.5 cents per thousand to estimate basic life withholding, and compared the result with the withholding amounts shown on the OPM Collection and Deposit System Standard Form 2812. All Payroll Offices are below the 5 percent reporting threshold.

To estimate agency contribution, we divided the estimated basic life withholding by two and compared it to employer basic life contribution on the OPM Collection and Deposit System Standard Form 2812. All Payroll Offices are below the 5 percent reporting threshold.

**Procedure.** 6.d. Calculate the Option A, Option B, and Option C Life Insurance coverage withholdings for the three pay periods selected by using detail payroll reports used to reconcile the RITS reports in Step 1.

**Auditor Action.** We obtained the number of participating employees from DFAS for each payroll data file. We totaled the individual withholding for Option A, Option B, and Option C for each payroll data file and each date. For the pay periods ending October 5, 2002; February 22, 2003; and March 8, 2003 the overall difference for Option A was 0.00 percent. For the pay period ending March 22, 2003, the overall difference for Option A was 0.03 percent. The differences between the amounts reported to OPM by DFAS and the amounts we totaled were significantly less than the reporting threshold of two percent in the agreed-upon procedures for Option A.

For the pay periods ending October 5, 2002; February 22, 2003; and March 8, 2003 the overall difference for Option B was 0.00 percent. For the pay period ending March 22, 2003, the overall difference for Option B was 0.03 percent. The differences between the amounts reported to OPM by DFAS and the amounts we totaled were significantly less than the reporting threshold of two percent in the agreed-upon procedures for Option B.

For the pay periods ending October 5, 2002; February 22, 2003; and March 8, 2003 the overall difference for Option C was 0.00 percent. For the pay period ending March 22, 2003, the overall difference for Option C was 0.10 percent. The differences between the amounts DFAS reported to OPM and the amounts we totaled were significantly less than the reporting threshold of two percent in the agreed-upon procedures for Option C.

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## Appendix A. Scope and Methodology

We reviewed a sample of the data and documentation supporting \$2.3 billion in payroll withholding reported each year by DFAS to OPM for DoD civilian personnel. The total annual payroll for about 685,000 DoD civilian employees is \$ 24.5 billion. The 685,000 employees include 3 small payroll files that we did not review in accordance with the agreed-upon procedures. We selected for review the payroll files and supporting documentation for the payroll periods that ended October 5, 2002; February 22, 2003; March 8, 2003; and March 22, 2003. The DFAS payroll history database did not support the amount of DoD payroll withholding reported to OPM because the detailed data provided to us for the audit, when added together, did not agree with amounts reported to OPM. We made recommendations addressing this deficiency for FY 2000 in OIG DoD Report No. D-2001-109, issued April 27, 2001. We had previously made recommendations addressing this deficiency for FY 1999 in OIG DoD Report No. D-2000-156, issued June 29, 2000. During mediation, DFAS had offered an alternative procedure, referred to as “data warehousing” to maintain data for 6 years, when fully implemented. DFAS personnel stated they have implemented the data warehousing methodology and now have readily accessible data starting in 2000. We intend to test the system during the FY 2004 Audit of Payroll Withholding Data. The OIG DoD considers this an acceptable alternative because it supports U.S. Treasury record retention requirements.

We reviewed data and documentation supporting gross pay and payroll withholdings that DFAS reported to OPM for the four pay periods ended October 5, 2002; February 22, 2003; March 8, 2003; and March 22, 2003. We also reviewed management controls over the reporting process. We compared the payroll data files with employee personnel forms for 236 randomly selected employees for gross pay, retirement, health insurance, and life insurance.

We performed the agreed-upon procedures required by OMB, including verification of the payroll data file totals and recalculations of insurance and retirement withholdings.

We did not perform an audit but performed additional procedures we considered necessary based on auditing standards from February 2003 through September 2003.

**Use of Computer-Processed Data.** We did not evaluate the general and application controls of the DCPS that processes payroll data, although we did rely on data produced by that system to conduct the audit. We determined data reliability by totaling the data provided to us from the system and comparing the totals to summary documents previously prepared from the system. Not evaluating the controls did not affect the results of the application of the agreed-upon procedures.

**General Accounting Office High-Risk Area.** The General Accounting Office has identified several high-risk areas in DoD. This report provides coverage of the Defense Financial Management high-risk area.

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## Management Control Program Review

DoD Directive 5010.38, “Management Control (MC) Program,” August 26, 1996, and DoD Instruction 5010.40, “Management Control (MC) Program Procedures,” August 28, 1996, require DoD managers to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

**Scope of Review of the Management Control Program.** We reviewed the adequacy of DoD personnel offices’ management controls over official personnel files. Specifically, we reviewed DoD personnel offices’ management controls over accuracy of personnel elections for payroll withholding, transmission of payroll withholding data to DFAS, and retention of personnel payroll withholding election data in the official civilian personnel files. We reviewed the annual statements of assurance by the Military Departments and Defense agencies to determine whether they disclosed the inconsistency between official personnel files and DCPS payroll withholding data.

**Adequacy of Management Controls.** We identified a management control weakness for DoD personnel offices as defined by DoD Instruction 5010.40. DoD personnel offices’ management controls for accuracy of personnel payroll withholding elections, timely transmission of personnel payroll withholding data to DFAS, and retention of personnel payroll withholding elections in official personnel files were not adequate. The inadequate controls did not ensure that civilian personnel were paid and withholdings made properly, that civilian personnel payroll withholding data were transmitted in a timely manner, and that documents and data supporting payroll withholding were retained in the official personnel files. We previously reported this management control weakness in OIG DoD Report No. D-2002-070, issued March 25, 2002. Recommendations 1.a., 1.b., and 2. in that report have been implemented and will improve DoD personnel office payroll withholding procedures. We provided a copy of that report to the senior official responsible for management controls of the personnel offices of the Military Departments and Defense agencies for their management and use.

**Adequacy of Management’s Self-Evaluation.** Self-evaluation by the Military Departments and Defense agencies did not identify the weakness because management did not identify the area as an assessable unit.



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## **Appendix B. Prior Coverage**

The Office of the Inspector General Department of Defense (OIG DoD) and the Air Force Audit Agency have conducted multiple reviews related to civilian payroll information, controls over the payroll process, and payroll expenses. Unrestricted OIG DoD reports are on the Internet at [www.dodig.osd.mil/audit/reports](http://www.dodig.osd.mil/audit/reports). Unrestricted Air Force Audit Agency reports are on the Internet at [www.affaa.hq.af.mil](http://www.affaa.hq.af.mil).

### **IG DoD**

IG DoD Report No. D-2003-060, "DoD Payroll Withholding Data for FY 2002," March 18, 2003

IG DoD Report No. D-2002-070, "DoD Payroll Withholding Data for FY 2000," March 25, 2002

IG DoD Report No. D-2001-109, "DoD Payroll Withholding Data for FY 2000," April 27, 2001

IG DoD Report No. D-2000-156, "DoD Payroll Withholding Data for FY 1999," June 29, 2000

### **Air Force Audit Agency**

AFAA Report No. 01053014, "Civilian Pay FY 2000," July 23, 2001

AFAA Report No. 99054002, "Selected Civilian Pay Entitlement," March 1, 2000

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## **Appendix C. Report Distribution**

### **Office of the Secretary of Defense**

Under Secretary of Defense (Comptroller)/Chief Financial Officer  
Deputy Chief Financial Officer  
Deputy Comptroller (Program/Budget)  
Under Secretary of Defense for Personnel and Readiness

### **Department of the Army**

Assistant Secretary of the Army (Financial Management and Comptroller)  
Assistant Secretary of the Army (Manpower and Reserve Affairs)  
Auditor General, Department of the Army

### **Department of the Navy**

Assistant Secretary of the Navy (Manpower and Reserve Affairs)  
Naval Inspector General  
Auditor General, Department of the Navy

### **Department of the Air Force**

Assistant Secretary of the Air Force (Financial Management and Comptroller)  
Assistant Secretary of the Air Force (Manpower, Reserve Affairs, Installations, and Environment)  
Auditor General, Department of the Air Force

### **Unified Command**

Inspector General, U.S. Joint Forces Command

### **Other Defense Organizations**

Director, Defense Commissary Agency  
Director, Defense Contract Management Agency  
Director, Defense Finance and Accounting Service  
Director, Defense Information Systems Agency  
Director, Defense Logistics Agency  
Director, Defense Security Service  
Director, National Imagery and Mapping Agency  
Director, DoD Education Activity  
Director, Civilian Personnel Management Services

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## **Non-Defense Federal Organizations and Individuals**

Office of Management and Budget  
Office of Personnel Management

## **Congressional Committees and Subcommittees, Chairman and Ranking Minority Member**

Senate Committee on Appropriations  
Senate Subcommittee on Defense, Committee on Appropriations  
Senate Committee on Armed Services  
Senate Committee on Governmental Affairs  
House Committee on Appropriations  
House Subcommittee on Defense, Committee on Appropriations  
House Committee on Armed Services  
House Committee on Government Reform  
House Subcommittee on Government Efficiency and Financial Management, Committee on Government Reform  
House Subcommittee on National Security, Emerging Threats, and International Relations, Committee on Government Reform  
House Subcommittee on Technology, Information Policy, Intergovernmental Relations, and the Census, Committee on Government Reform

# Defense Finance and Accounting Service Comments



DEFENSE FINANCE AND ACCOUNTING SERVICE  
KANSAS CITY  
1500 E. 95<sup>TH</sup> STREET  
KANSAS CITY, MISSOURI 64197-0001



DFAS-PB/KC

DEC 08 2003

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCIAL AUDITING SERVICE,  
OFFICE OF THE INSPECTOR GENERAL, DoD

SUBJECT: Requested Comments on Recommendation Nos. 1 and 2 of the Draft Report "DoD  
Payroll Withholding Data for FY2003", Project No. D2003FH-0059

Per your request, attached are the Defense Finance and Accounting Service (DFAS)  
comments to the DoDIG subject report recommendations.

Questions your staff may have concerning these matters may be directed to my point of  
contact, Sandra Barrineau, DFAS-PC/PE, 850-452-2990, extension 562, DSN 753-2990.

Thomas J. Caporizzo  
Acting Director, Military and Civilian Pay Services

Attachment:  
As stated

cc:  
DFAS-DDI/AR

**DoDIG DRAFT REPORT DATED OCTOBER 31, 2003  
PROJECT NO. D2003FH-0059**

**DoD PAYROLL WITHHOLDING DATA FOR FY 2003**

**DFAS COMMENTS TO THE DoDIG RECOMMENDATIONS**

**RECOMMENDATION 1:** "Reconcile amounts reported on Form 592s, Payroll Certification and Summary, to total payroll before certifying that the payroll is correct and proper for payment and that sufficient funds are available to cover the gross appropriation charge."

**DFAS COMMENTS:** Partially concur. DFAS concurs with the first part of this recommendation that the amounts reported on the Form 592s, Payroll Certification and Summary, be reconciled to the total payroll before certification that the payroll is correct and proper for payment. To preclude errors in the future, the DFAS payroll offices are in the process of reviewing and standardizing desk procedures to ensure compliance with this recommendation.

ECD: January 30, 2004.

However, DFAS non-concurs with the statement "that sufficient funds are available to cover the gross appropriation charge." Volume 5, chapter 33, of the DoD Financial Management Regulation clearly states that the payroll certifying officer is not required to certify that sufficient funds are available to cover the gross appropriation charges as reflected on the Payroll for Personal Services - Payroll Certification and Summary:

a. Paragraph 330302. Specific Responsibilities of Accountable Officials by Functional Area

(1) 330302.D (Civilian Pay)

- (a) 330302.D.4. "Resource Managers/Fund Holders. In addition to other responsibilities, resource managers/fund holders are responsible for the proper assignment of funding on an obligation document before the obligation is incurred, and for maintaining a system of positive funds control."

b. Section 3306 Certification

- (1) Paragraph 330601. "By affixing a manual, electronic or digital signature to a voucher, a certifying officer states (certifies) to a disbursing officer that the items listed therein are correct and proper for payment from the appropriation(s) or other funds designated thereon or on supporting vouchers, and that the proposed payment is legal, proper and correct. . . ."

In other words, specific accountable officials (and not the payroll certifying officers) are responsible for ensuring funds availability for payment of vouchers.

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**RECOMMENDATION 2:** "Download Form 592s only once for the signature of the payroll-certifying officer."

**DFAS COMMENTS:** Concur. The Form 592 should be downloaded only once for the signature of the payroll-certifying officer. Errors that were identified in this audit were of a clerical nature and were brought to the attention of the personnel performing the balancing function. As indicated in the response to Recommendation #1, desk procedures are under review and will be updated to preclude recurrence of this error.

ECD: January 30, 2004

## **Team Members**

The Defense Financial Auditing Service, Office of the Deputy Inspector General for Auditing of the Department of Defense prepared this report. Personnel of the Office of the Inspector General of the Department of Defense who contributed to the report are listed below.

Paul J. Granetto  
Richard Bird  
David F. Vincent  
Thomas J. Winter  
Joseph A. Powell  
Jonathan M. Rabben  
Demetria Trahan  
Joseph Bilock  
Mark Heim